



Foreign Agricultural Service

**GAIN Report**

Global Agriculture Information Network

Voluntary Report - public distribution

Date: 3/7/2001

GAIN Report #HR1001

## **Croatia**

## **Tobacco and Products**

## **Report**

## **2001**

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### **Report Highlights:**

**The U.S. has already a large share of Croatia's cigarette imports. However, due to expected import rise, the U.S. should step up its shipments in 2000.**

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Includes PSD changes: Yes  
Includes Trade Matrix: Yes  
Unscheduled Report  
Vienna[AU1], HR

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## Summary

The 2000 tobacco area decreased considerably, but due to improved production methods, tobacco yields and total output increased. Cigarette production continues growing because of significantly rising exports. Cigarette imports show also a rising trend. In 2000, the U.S. supplied 40% of total imports. New regulations eliminated tax discrimination of imported tobacco products. End summary.

## Tobacco

PSD Table						
Country	Croatia					
Commodity	Tobacco, Unmfg., Total				(HA)(MT)	
	Revised	1999	Preliminary	2000	Forecast	2001
	Old	New	Old	New	Old	New
Market Year Begin		01/1999		01/2000		01/2001
Area Planted	6490	6490	7200	5726	0	5850
Beginning Stocks	19281	19281	18890	17207	19077	16230
Farm Sales Weight Prod	11293	11293	12528	13300	0	13455
Dry Weight Production	9735	9735	10800	11438	0	11575
U.S. Leaf Imports	0	720	0	401	0	600
Other Foreign Imports	3794	3158	3500	3861	0	4200
TOTAL Imports	3794	3878	3500	4262	0	4800
TOTAL SUPPLY	32810	32894	33190	32907	19077	32605
Exports	5406	6453	5500	4776	0	4500
Dom. Leaf Consumption	6004	6004	6074	7000	0	8100
U.S. Leaf Dom. Consum.	0	720	0	401	0	600
Other Foreign Consump.	2510	2510	2539	4500	0	4700
TOTAL Dom. Consumption	8514	9234	8613	11901	0	13400
TOTAL Disappearance	13920	15687	14113	16677	0	17900
Ending Stocks	18890	17207	19077	16230	0	14705
TOTAL DISTRIBUTION	32810	32894	33190	32907	0	32605

## Production

The decline in Croatia's 2000 tobacco area is due to privatization of state farms, new market conditions, and opportunities for private farm owners. However, due to modern technology, yields rose significantly resulting in an actual production increase.

The main domestic product is Virginia tobacco, which accounts for 92% of total tobacco production. The majority of tobacco is produced by small family farms (average size 4 ha) in eastern Croatia. Family farms

produce tobacco on a contract basis. About 15% of total production comes from larger producers with better technology.

There are four tobacco processing firms in Croatia. Three are owned by the tobacco factory Rovinj (TDR), which was Croatia's only cigarette producer in 2000.

### Production Policy

The Croatian government sets the average producer floor price for leaf tobacco for Grades 1 to 4. The 2000 floor price remained on the same level as in the three previous years, e.g. 8.00 Croatian kuna (U.S. \$ 0.95) /kg tobacco.

Besides the guaranteed floor prices, the government also provides subsidies. In early 2000, the subsidy for tobacco production was increased from 4 Croatian kuna/kg to 4.8 Croatian kuna/kg (\$ 0.64/kg) tobacco. Subsidies for 2001 will remain at the same level.

### Trade

Import Trade Matrix			
Country	Croatia		
Commodity	Tobacco, Unmfg., Total		
Time period	1999	Units:	2000
Imports for:		MT	1
U.S.	720	U.S.	401
Others		Others	
Zimbabwe	895	Brazil	624
Malawi	755	Malawi	606
Macedonia	700	France	584
India	228	Zimbabwe	487
Brazil	192	India	242
Bosnia & Herz.	100	Italy	200
		Bosnia & Herz.	50
Total for Others	2870		2793
Others not Listed	288		1068
Grand Total	3878		4262



Export Trade Matrix			
Country	Croatia		
Commodity	Tobacco, Unmfg., Total		
Time period	1999	Units:	2000
Exports for:		MT	1
U.S.	0	U.S.	0
Others		Others	
Egypt	1760	Egypt	2300
Slovenia	1489	France	778
France	1132	Slovenia	200
Macedonia	1037	Bosnia & Herz.	191
Bosnia & Herz.	761	Macedonia	96
United Kingdom	269		
Total for Others	6448		3565
Others not Listed	5		1194
Grand Total	6453		4759

The main tobacco suppliers were Brazil, Malawi, France and Zimbabwe. Croatia imports burley from the U.S. for cigarette blending. U.S. origin imports decreased primarily due to the cost of U.S. priced items and the availability of lower-priced substitutes.

## Trade Policy

### Tobacco and Tobacco Products Duty Rates for 2001

Tariff item number		Description	Measure unit	Duty rate (%)
24.01		Unmanufactured tobacco: tobacco refuse		
	2401.10	– tobacco not stemmed/stripped:		
	2401.101	– – – Virginia type hot air dried	kg	20
	2401.102	– – – burley type dried in shade	kg	20
	2401.109	– – – other types	kg	10
	2401.20	– tobacco, partly or wholly stemmed/stripped:		
	2401.201	– – – Virginia type hot air dried	kg	17,4
	2401.202	– – – burley type dried in shade	kg	17,4
	2401.209	– – – other types	kg	9
	2401.30	– tobacco refuse	kg	20
24.02		cigars, cheroots, cigarillos and cigarettes of tobacco or of tobacco substitutes:		
	2402.10	– cigars, cheroots and cigarillos, containing tobacco:		
	2402.101	– – – cigars	pieces	15
	2402.102	– – – cigarillos	pieces	15
	2402.20	– cigarettes containing tobacco	pieces	49,3
	2402.90	– other	pieces	35
24.03		Other manufactured tobacco and manufactured tobacco substitutes; "homogenized" or "reconstituted" tobacco; tobacco extracts and essences		
	2403.10	– smoking tobacco, whether or not containing tobacco substitutes in any proportion:		
	2403.101	– – – cut tobacco	kg	43,5
	2403.102	– – – pipe tobacco	kg	43,5
	2403.109	– – – other	kg	43,5
	2403.9	– other:		
	2403.91	– – homogenized or "reconstituted" tobacco	kg	10
	2403.99	– – other	kg	20

There are no quantitative restrictions on import of tobacco and tobacco products.

Until October 1999 the domestic market was protected by the “Law on Excise Taxes on Tobacco and Tobacco Products” which stipulated a large difference between the excise taxes for imported and domestically produced tobacco products.

Due to harmonization of the Law with WTO rules, the new “Law on Excise Taxes” and a new “Law on Tobacco” were adopted by the Croatian government in October 1999. The main characteristic of the new legislation is the elimination of differences between the excise taxes for imported and domestic tobacco products.



## Cigarettes

PSD Table						
Country	Croatia					
Commodity	Tobacco, Mfg., Cigarettes				(MIL PCS)	
	Revised	1999	Preliminary	2000	Forecast	2001
	Old	New	Old	New	Old	New
Market Year Begin		01/1999		01/2000		01/2001
Filter Production	12785	12785	13000	13692	0	14000
Non-Filter Production	0	0	0	0	0	0
TOTAL Production	12785	12785	13000	13692	0	14000
Imports	14	14	20	15	0	16
TOTAL SUPPLY	12799	12799	13020	13707	0	14016
Exports	3451	3451	4000	5545	0	5650
Domestic Consumption	9348	9348	9020	8162	0	8366
TOTAL DISTRIBUTION	12799	12799	13020	13707	0	14016

### Production

Cigarette production continues growing about 6% annually. Almost all cigarettes are filter tipped. Light cigarettes are also expanding on the market. Nearly 1/3 of domestic production is sold to foreign markets.

Croatia's three cigarette factories are located in Zagreb, Zadar and Rovinj. The largest factory, TDR, in Rovinj, bought the Zagreb tobacco factory in early 1998. TDR wanted to buy also the factory in Zagreb to achieve a monopoly position on the Croatian market. However, in mid May 1999, British American Tobacco (BAT) concluded a take-over deal with shareholders of the Zadar tobacco factory, which resulted in the so called "tobacco war" with TDR. The result being that the Zadar factory has now been out of operation for over 3 years. The factory is expected to take up production of local and international license brands in April 2001.

Based on the tobacco law, the Croatian government adopted two chapters of regulations in January 2000. However, BAT complained that the new regulations did not comply with the tobacco law and that they were discriminatory against BAT. BAT threatened to suspend investments in the Zadar tobacco factory giving a significant negative signal for other foreign investors. Due to this pressure, the Croatian Government abandoned the problematic regulations in May 2000. The "tobacco war" ended after BAT had acquired the controlling interest of 80.5% in the Zadar tobacco factory.

### Consumption

According to some estimates there are about 1,050,000 smokers out of a population of 4.5 million people.

Cigarette prices range from 8,5 kuna (\$1.01) to 16 kuna (\$1.9)/package.

The big problem for cigarette industry as well as for the government is black market. Possibly one fourth of cigarettes sold in Croatia are black market cigarettes. The main reason for large black market sales is the high price resulting from high cigarette taxes. Prices on the black market can be half of those in shops.

Almost 15% of legal cigarette supply on Croatian market are foreign brands, mainly imported by TDR. Almost 1/3 of cigarette trade is in hands of few specialized firms with their own wholesale, distribution and retail net. The rest of market is serviced by about 150 wholesalers.

Croatian consumers spend about 3% of their income on cigarettes. About 51% of total consumption are light cigarettes. Despite strong anti-smoking campaigns and a difficult economic situation, only about 2% of smokers quit smoking each year.

### Anti-Smoking Measures

In November 1999 the Croatian Parliament approved the “Law on restricted use of tobacco products” (Official Gazette No. 128/99). This law includes:

1. prohibits smoking at indoor meetings and other working areas except in those which have a sign that smoking is allowed
2. prohibition of selling of cigarettes to persons younger than 18 years
3. prohibition of cigarette selling from automatic machines
4. prohibition of advertising tobacco and tobacco products
5. prohibition of smoking in health and education institutions
6. requirement that all cigarette packs have the health warning: “Smoking is harmful to health” and one of the following warnings:
  - “Smoking causes cancer”
  - “Smoking during pregnancy is dangerous for children”
  - “Smoking causes heart attacks and strokes”
  - “Smoking shortens life”

Nicotine and tar contents per cigarette are also required.

**Trade**

Import Trade Matrix			
Country	Croatia		
Commodity	Tobacco, Mfg., Cigarettes		
Time period	1999	Units:	2000
Imports for:		MT	1
U.S.	2	U.S.	20
Others		Others	
Germany	5	Benin	8
Netherlands	2	Netherlands	2
		Germany	1
Total for Others	7		11
Others not Listed	4		17
Grand Total	13		48

Export Trade Matrix			
Country	Croatia		
Commodity	Tobacco, Mfg., Cigarettes		
Time period	1999	Units:	2000
Exports for:		MT	1
U.S.	10	U.S.	0
Others		Others	
Slovenia	1439	Slovenia	1841
Bosnia & Herzeg	1048	Bosnia & Herzeg	747
Cyprus	669	Yugoslavia	488
Yugoslavia	281	Cyprus	19
Total for Others	3437		3095
Others not Listed	63		1055
Grand Total	3510		4150

The image of U.S. cigarettes makes them a luxury product in this market. People are willing to pay higher prices for U.S. cigarettes.

The total tax burden for cigarettes amounts to 67-75% of retail price. The Croatian cigarette industry pays about 3.2 billion kuna (\$381 millions) for various taxes (primarily VAT and excise tax). TDR taxes amount to 7,3% of total taxes in Croatia.

## Trade Policy

See Trade Policy of Tobacco.

## Policy

According to "tobacco law", cigarettes are divided into three groups:

- group A (popular group)

- group B (standard group)
- group C (extra group).

Group A includes cigarettes based on a mixture with at least 60% non aromatic, large-leaf tobacco (types of Virginia hot air dried, burley dried in shade) of which at least 25% is from lower purchased classes or from their substitutes (tobacco foil or technologically manufactured leaf veins). Cigarettes can be with or without filter and they are packed in soft packs, and are intended primary for the Croatian market.

Group B includes cigarettes based on a mixture with at least 60% non-aromatic large-leaf tobacco (types Virginia, burley, etc.) or their substitutes (tobacco foil or technologically manufactured leaf veins). They are filter tipped and packed in hard packs and are intended primary for the Croatian market.

Group C includes all other cigarettes, which do not meet the conditions prescribed for cigarettes under groups A and B.

From Croatian accession to WTO, cigarettes produced with imported non-aromatic, large-leaf tobacco (types of Virginia hot dried and burly dried in shade) that originate from WTO members' countries, can be classified in group A and B.

Excise Taxes for different groups are as follow:

Group A.....5,00 Croatian kuna  
Group B.....5,40 Croatian kuna  
Group C.....8,90 Croatian kuna

Excise taxes are also paid for:

Tobacco.....38,00 Croatian kuna  
Cigars.....1,10 Croatian kuna  
Cigarillos.....4,40 Croatian kuna

### **Labeling Requirement**

According to the cigarette law, the cigarette box label must include:

- product name,
- nicotine contents ,
- tar contents,
- producer's name and address,
- name and address of importer (for imported cigarettes),
- number of pieces in box, written in Croatian language.

For tax purposes all packs have to be labeled with a Ministry of Finance label displaying the retail price and pack number. The labels have to be paid for before distribution on market.

In October 2000 the Ministry for Agriculture and Forestry implemented two new regulations. One includes registration of tobacco producers, tobacco product producers, exporters and importers and the other concerns classification and registration of tobacco products.